

REMARKS

Applicant's remarks, below, are preceded by quotations of related comments of the examiner in small, boldface type.

Claims 1-15 are rejected under 35 U.S.C. 101 because the claimed invention is directed to a non-statutory subject matter.

The invention as recited in the claims is merely an abstract idea that is not within the technological arts. Mere ideas in the abstract (i.e., abstract idea, law of nature, natural phenomena) that do not apply, involve, use, or advance the technological arts fail to promote the "progress of science and the useful arts" (i.e., the physical sciences as opposed to social sciences, for example) and therefore are found to be non-statutory subject matter.

Claim 1 has been amended.

Claims 1-25 are rejected under U.S.C. 103(a) as being unpatentable over the article Roberts et al. U.S. Patent no. 6,292,788 in view of "A REIT's Right Moves/Investment fuels growth of real estate firm" (Louis, Arthur. July 8, 1997. San Francisco Chronicle).

Roberts et al. discloses the specific operation and execution of Real Estate Investment Trusts (REITs). REITs are generally well known in the art of Real estate transaction as a means of taking advantage of Internal Revenue Code (IRC) § 1031, which permits deferral of taxes on investment real estate by reinvesting in other investment real estate [Col 1, Line 62]. An REIT is a company that buys, sells, manages and develops real estate or real estate mortgages on behalf of its investors [Col 2, Lin 45]. An investor first contributes their real estate property to a partnership owned by the REIT (acquiring properties from investors) and in a tax-deferred exchange receives a number of shares in the REIT (tax-preferred transaction to acquire a predetermined portion of interest in an investment entity) [Col 2, Line 57]. The benefit of the REIT is that it is divisible, providing a steady income stream and requiring a low management effort [Col 2., Line 41].

Louis describes a particular REIT, Bay Apartment Communities, which buys and upgrades distressed residential properties (enhancing the value of at least one of the properties by physical improvements, investment comprises income producing real estate). The company purchases and refurbishes these properties for much less than it would cost to build new ones. Bay Apartment Communities' shareholders are paid in dividends (redeeming interests of investors) generated by rental income from the apartments. It would have been obvious to modify the REIT to include investment properties of any type, distressed or otherwise – as taught by the article – in order to boost profits by decreasing costs.

In specific reference to claims 1 and 16, the system of Roberts et al./Louis does not provide for disposing of at least one of the properties that falls outside of an investment profile or using a disciplined portfolio approach that uses diversification and contingent risk minimization. The process of managing an investment portfolio by eliminating undesirable assets, in this case property, and minimizing risk, to fulfill an administrator's desired profile is an old and well-established business practice. The practice is designed to increase the efficiency and profit-making capability of an investment portfolio and decrease unnecessary risk. It would have been obvious to one of ordinary skill in the art at the time of the invention to modify the system of Roberts et al./Louis include the method of disposing of at least one of the properties that falls outside of the investment profile, which is based upon

diversification and contingent risk minimization, to enhance the performance of the entire portfolio.

In amended claim 1, the investor's interest in the investment entity is redeemed by the investment entity at a value based on the current value (the current value in turn is based on characteristics of the properties held by the investment entity). Enabling redemption of an investor's interest at a value that is based on the characteristics of the properties is advantageous. Because the value of the investor's interest is pegged to the property characteristics, that value may not be influenced by psychological and other market factors that would affect the value if it were determined by a market in which the interest was traded. Also, the investor does not recognize taxable income until the redemption occurs, so he is able to hold his interest in the investment entity without tax consequence, benefit from increases in values of the properties, and then choose the time when the taxable event (redemption) occurs.

The redemption feature recited in claim 1 and its benefits are thus very different from the features of the REIT transactions described in the Roberts patent and the Louis article. In those transactions, there is no redemption—that is, no repayment by the investment entity of the value held by the investor. To the contrary, in the REIT situation, when the investor decides to incur the taxable transaction (in which the partnership conveys the previously contributed investor's property to the REIT), what he receives are shares in the REIT. The delivery of such shares is not a redemption. The REIT shares have a value determined by the market, a value that may be quite different from the value that is implied by the underlying properties.

The examiner asserts that the payment of dividends to a holder of the REIT shares is a redemption, but that is simply not the case. Contrary to the examiner's assertion, dividends are a payment of earnings on the principal of an investment, not a return of the value of the principal.

In specific reference to claim 16, it was known at the time of the invention that merely providing an automatic means to replace a manual activity which accomplishes the same result is not sufficient to distinguish over the prior art, *In re Venner*, 262 F.2d 91, 95, 120 USPQ 193, 194 (CCPA 1958). For example, simply automating or computerizing the management of the investment portfolio gives you just what you would expect from the manual step as shown in the system of Roberts et al./Louis. In other words there is no enhancement found in the claimed step. The claimed addition of a computer system to record and analyze investments held by the investment entity only provides automating the manual activity. The end result is the same as compared to the manual method. A computer can simply iterate the steps faster. The result is the same.

Claim 16 is patentable for at least the same reasons as claim 1.

In reference to claims 3, 5, 6, 12-15, 18, 20, and 21, the system of Roberts et al./Louis does not explicitly disclose that the investment comprises:

- Inner-city residential properties
- For which a purchase price for an individual property divided by a total rent obtained from such property is low relative to other properties located in a surrounding area
- Residential rental properties for which rents are below market for a neighborhood proximate to such properties

"Distressed property" is a general real estate term used in reference to any property that is under-performing (rent-wise), dilapidated or generally "undesirable". It would have been obvious to one skilled in the art at the time that the system of Roberts et al./Louis, in comprising "distressed properties", would include the purchase of inner-city residential properties that are under-performing compared to the surrounding market, in order to increase the investment portfolio's profit margin.

All of the dependent claims are patentable for at least the same reasons as the independent claims on which they depend.

The fact that the applicant has replied to certain comments of the examiner does not mean that the applicant concedes any other comments of the examiner. The fact that the applicant has stated certain arguments for patentability of the claims does not mean that are not other good reasons for the patentability of those claims or other claims.

Enclosed is a \$27.000 check for excess claim fees and a \$465.00 check for the Petition for Extension of Time fee. Please apply any other charges or credits to deposit account 06-1050, reference number 12016-002001.

Respectfully submitted,

Date: _____

9/25/3



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